

HE 2757

1917

.T4

Copy 2

FT MEADE
GenColl

T h e S o l u t i o n

ADDRESS BY

A L F R E D P . T H O M

At the Annual Dinner of the
Railway Business Association

January 16, 1917

10172

HE 2757

1917

T4

copy 2

REQUESTS FOR COPIES
of this pamphlet will be welcome from all
those desiring to place it in the hands of
their representatives or friends. Copies
furnished or sent direct to lists upon
application to Frank W. Noxon, Secretary
Railway Business Association, 30 Church
Street, New York.

RAILWAY
BUSINESS
ASSOCIATION
JAN 2 1917

153

T h e S o l u t i o n

ADDRESS BY

ALFRED P. THOM

General Counsel of the Railway
Executives' Advisory Committee

DELIVERED AT THE EIGHTH ANNUAL DINNER OF THE
RAILWAY BUSINESS ASSOCIATION, NATIONAL ORGANI-
ZATION OF MANUFACTURERS OF RAILWAY MATERIALS,
EQUIPMENT AND SUPPLIES, AT THE WALDORF-ASTORIA
HOTEL, NEW YORK, JANUARY 16, 1917

I THANK you, Mr. President, for your cordial introduction, and for this wonderful opportunity. You have made it possible for me to stand to-night at the very center of commercial activity of the Western hemisphere. I address an audience fully representative of the broadest business experience and enlightenment of the American people. In such a place, before such an audience, there are certain fundamental economic truths which need no discussion; they may be taken as axiomatic.

Axioms

Here it may be taken as conceded that the highest and most important interest of the American public is that its transportation facilities shall at all times be kept adequate to the public need. In view of the practical suspension of railroad construction into new territory, of the delays and embargoes that have affected American commerce, it may likewise be taken as conceded that as to that not even the present needs of American commerce have been provided for,

and that there can be no contention that the future of American commerce has been properly looked after and safeguarded.

It likewise may be assumed before an audience of this intelligence and experience that these facilities cannot be provided out of current earnings, but that the American public must look for what it needs to the securing of the necessary money on the credit of the railroads.

Let me therefore invite your attention for a few moments to the difficulties which confront the responsible railroad manager when he attempts to secure the credit that is needed in the public interest.

Regulation Correctional

At the outset he is confronted by a system of regulation born in resentment and anger at great commercial abuses, and which contains no element except that of correction and punishment; it contains no element of encouragement and assistance. It does not properly balance discipline with encouragement; it pulls down, it represses; it does not build.

Therefore this responsible railroad executive must go to the investor with a concession of that, as a system of regulation which has been adopted.

Control Irresponsible

He must admit that when the investor enters this field of commercial enterprise he goes into a field where he has lost all control over his revenues because they are fixed for him by the system of regulation. Not only that, but he must admit that they are controlled and limited not by one comprehensive, wise and complete governmental authority, but by many diverse, unco-ordinated and irreconcilable governmental policies and authorities. He must further admit that his expense account is beyond his control, because that is fixed for him by the demands of labor, by the economic conditions affecting all he buys, and by the same unco-ordinated and diverse public power of regulation. With this condition of regulation and with these admissions, he approaches the investor whom he must attract and whom he cannot compel.

Drain on Capital Supplies

With what else is he confronted? A great war in Europe has made all that country a borrower instead of a lender; that great field of financial supply has been taken from him. In vast areas of the American continent also there is no supply of credit to the railroad. For example, one of the most important railroad systems that serve the South, recently being able to trace the ownership of a block of \$100,000,000 of its bonds through the income tax provisions, found that but \$3,500,000 was held in the South. The same, in some like proportion, is true of the West. So that there are two vast sections of the country practically withholding their credit from the railroad, from

the provision of railroad facilities for the American people. With European credit withdrawn, with credit not supplied by these great territorial reaches of the American continent, the railway manager comes to one little section of the country as a place from which he must derive the means of supplying the needed transportation facilities of the American people.

But what else confronts him? He has had withdrawn from him that kind of capital that is willing to make adventure in the hope of large gain. He has no longer an opportunity to appeal to the speculative capital of the world. That is an inevitable result of regulation. You can no longer capitalize hope or faith to the investor in railroads. All you can capitalize is the meagre charity that is meted out by the politicians of the country.

Property Rights Denied

But there is still a larger difficulty which confronts him, and that is the value of the property in which he invests his money is being cut down by denials to that property of elements of value which are conceded to every other kind of property.

The value of property that grows out of its earning capacity is not only a universal attribute of property, but the real and essential attribute of value, the thing that makes men want property,—the capacity to earn from it. This is denied by an important political faction in this country. The value of property in railroads as a going concern, the value of the business which successful railroad men have brought to their properties, the value that they have made by creating a neighborhood to business, the value that they have because they can bring return on fair rates from a large volume of business, all that is being denied by important men having the ear of a large part of the American people.

What is the consequence of that to the investor who may choose an investment, who may put it in a business that is not regulated, who may put it in a business the returns from which are not limited by law, and who is invited to put it in a property the returns from which are not only limited, but the very value of the property itself denied a universal attribute of property?

Managerial Responsibility

With that condition confronting this industry, essential to the well-being of the people, can you blame the responsible executives of American railroads, that they have put their cause with earnest insistence before Congress and the country? Can you wonder that, conscious of their responsibilities, they have invited an examination of what the public interest requires, and have come forward to portray a situation with which they are finding an increased difficulty of dealing?

I do not disguise from myself that the situation is a difficult one. I do not disguise from myself that there are strong and entrenched interests which will be loth to surrender advantages which they have; that there are selfish interests which will not willingly surrender what they have acquired, and will not look in a broad and comprehensive way at the great problem and measure it simply by the public interest.

Hopeful Auguries

But we are not without encouragement. There are great men in public position today, who are willing to look at the problem in a comprehensive and patriotic way. The President of the United States has had his attention arrested; he has recommended that the whole problem be studied in a calm and statesmanlike way, in the light of the 29 years of experience that we have had

with regulation. We are having an attentive hearing by an important Committee of Congress. We have seen the interest of the American people aroused. They are giving attention and consideration to this matter as never before. All over the country meetings like this with calm and deliberate purpose are studying the problem from the standpoint of the public interest, and we have the historic fact of great triumphs in sound thinking and righteousness whenever the people become correctly informed.

So to-night with all our difficulties before us, recognizing the tremendous task which we have, we are not without encouragement; not without hope that the problem which we present in a calm and patriotic way, offering to measure it simply by the public interest, will in time, a short time I hope, be recognized by the patriotism and the statesmanship of the American people, and that we will get relief for this fundamental interest which the public so greatly and so essentially requires.

Definition of Purposes

Events and the development of public thought have now brought us to the stage in which basic purposes affecting railway regulation must be precisely defined and declared. I believe that many—perhaps most—thinking men in all the states have come to realize that a readjustment is urgently needed. It appears to be true that an overwhelming majority of men in official station at Washington appreciate the necessity of dealing with the subject in some effective way. I trust and believe that every member of the Joint Committee on Interstate Commerce, which is investigating the malady and will write the prescription, is convinced of the need for a real remedy.

Points Already Agreed On

If in that situation we are to emerge from the phase of diagnosis and move on into the zone of cure, it is essential that the several elements of society affected should, through their representative men, subordinate minor differences and let their minds meet on a high plane of patriotic aspiration and statesmanlike endeavor.

It seems to be possible to state certain things on which agreement is already manifest.

Sag in Investment and Growth

First—The fact that the rate at which existing lines are being developed and new mileage is being constructed is not in a proportion approaching that which was an indispensable factor in the commercial and agricultural growth of the past. This is nowhere denied.

Second—That commerce is even now being inconvenienced and impeded by lack of transportation facilities, and there is no assurance, under existing governmental methods of regulation, that transportation facilities will hereafter be adequate and sufficient for the reasonable requirements of the commercial public.

Third—That to provide adequate transportation requires the constant input of large amounts of new capital, which can be obtained only through credit.

Fourth—During the period of diminishing railway expansion, and of inadequate facilities on existing lines, a condition has arisen which makes other public utilities and the industrials a more attractive field for investment than steam railways. Nobody disputes that enterprises other than the roads have been obtaining a larger proportion than formerly of available new capital, and a very much larger proportion than the railroads.

Regulation without Responsibility

Fifth—Investors and those who advise them specify, as the reason for their change of preference, the transfer of control over expenses and receipts from the owners to various agencies of government, including semi-governmental wage boards, and the absence of any coordination of the several governmental agencies in a way to concentrate the authority and to fix the responsibility for financial results. In some quarters it is asserted that this frame of mind of investors has been deliberately caused by the railway managers through public declaration of impairment of railway credit; but those who express this view cannot deny the fact and must appreciate that the truth must be set forth in railway reports and neither can be nor should be concealed from investors and their bankers, nor do they indicate how the railway managers are ever to obtain relief from any adverse condition except by telling the public the real facts.

Commission Not Now Legally Responsible

Sixth—In the existing system of federal regulation, the act of Congress creating the Commission contains no clause explicitly placing upon the Commission responsibility for the establishment and preservation of proper railroad credit or for so regulating rates in relation to expenses that investments will be adequately attracted.

Seventh—Even if the Interstate Commerce Commission were by statute made responsible for the aggregate financial results of its own orders and of the federal laws, it could have no effective control of the situation so long as the authority is not completely federal, and state authorities continue to regulate rates of carriers which do an interstate business and to control, one state con-

flicting with another, the issue of securities. Few now profess to see advantage in the exercise by the state of the power of supervision over security issues. Nobody, so far as I know, denies that in regulation of rates the conflict between the different states and between the federal and state authorities occasions waste, loss and injury to the whole nation, but there are some in certain states who cling to the view that the state should regulate rates on hauls within the state. It seems reasonable to ask of these advocates that they present an affirmative plan for meeting the conditions as they exist in the nation as a whole for dealing with the essential question of railway credit, and for maintaining in a comprehensive way, with equal distribution of burden and without conflict of policy or purpose, the instrumentalities of the nation's commerce. An adequate solution from any source will be welcome.

Results the Test of Remedies

Indeed, I have the satisfaction of being able to say, with the authority of the railway systems which I represent in this matter, that we are more concerned with results than with the pride of opinion; that if economists or bankers or shippers or members of Congress can propose a remedy which will cure the disease, the fact that the successful idea originates somewhere else than with ourselves will not give us the slightest pang of jealousy or tinge of regret. We have said with deep sincerity that we invite the use of one single yard stick in testing the remedies which we propose, and that is the public interest. In the same spirit we hope all others will invite the application to any amendments or substitutes which they may bring forward this same yard stick: that is, whether their proposal will attract investment into railway enterprises and restore railway growth to the

rate which is essential for national development, national trade and national defence.

To Fix Responsibility by Statute

Nobody within sound of my voice or within reach of the printing press needs to be reminded of the remedies which have been laid tentatively before the Joint Committee of Congress on behalf of the railways. We think the act to regulate commerce should lay upon the Interstate Commerce Commission the duty as well as confer upon it the power so to control the relation of income to outgo as to leave an adequate surplus as a basis of credit. We think the Interstate Commerce Commission should have exclusive supervision over the issue of securities. To that end we think railway charters should be federal. We think that, in order to insure equality of commercial opportunity to all the people and equality in the distribution of the burden of maintaining at a standard of high efficiency the facilities of a universal commerce, the act should make clear that Congress has empowered the Interstate Commerce Commission to regulate all rates, state as well as interstate, of carriers which do an interstate business.

These are the fundamental ingredients. We believe that if the country neglects by these or other measures to fix the responsibility for financial results, regulation will fail and the government will be forced to provide transportation out of the tax levy. We believe that if these or better measures, well chosen to promote the same purposes, are speedily adopted the American people will have equipped themselves with a beneficent agency of prosperity and will have done much to secure the blessings of national security, of civic harmony and broad commercial opportunity.

H156 74 578

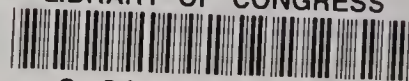


APR 74



N. MANCHESTER,
INDIANA

LIBRARY OF CONGRESS



0 016 104 113 0

